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FOREIGN SERVICE DESPATCH

FROM : AmConsulate, KHORRAMSHAHR

36

DESP. NO. ~~887.2553~~ 888.3932

December 27, 1958

TO : THE DEPARTMENT OF STATE, WASHINGTON.

DATE 988.734

REF : Tehran's Desp. No. 395 dated Nov. 29, 1958

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15	NEA-4	INFO RM/R-2 REP-1 INR-8 E-7 ICA-10 IO-4 AIR-1
	REC'D 1/7	OTHER NAVY-3 TR-3 XMB-4 CIA-10 OSD-4 COM-17 IN-7 TAR-2 ARMY-4

SUBJECT: PROPOSED PIPELINES TO AN NEW OIL PRODUCTS TERMINAL ON KHOR MUSA

SUMMARY:

What appears to be an Iranian search for a weapon with which to compel the Government of Iraq to come to a settlement on the entire Shatt-al-Arab question has progressed into serious consideration of the construction of a number of pipelines to carry the products of the Abadan refinery to a new terminal constructed on Iranian territory and approachable through Iranian territorial waters. The recommended site for the terminal is at the bend of the Khor Musa west of Bandar Shahpour. Estimates of cost of the over-all project vary between 20 and 100 million pounds sterling.

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For some months the Tehran press has reported plans for the construction of oil pipelines between the Abadan refinery and a point on the Persian Gulf or dredging of the Bahmanshir River to permit tankers to reach Abadan through Iranian territorial waters. The latter proposal does not bear critical inspection since the Bahmanshir is very narrow with a minimum depth of one fathom or less.

Political, military and economic factors urge Iran to end its dependence on the Iraqi-controlled Shatt-al-Arab. Iranian sensibilities are offended by Iraq's sovereignty over the entire river and press reports which picture Iraq as intransigeant and truculent on the issue have probably been officially inspired. Iran's Persian Gulf Fleet (of patrol craft) is based at Khorramshahr and its officers are well aware of Iraq's ability to bottle up Iran's ships by sinking barges or dredges in the narrow channel near Fao.

Economically, Iran would seem to have a legitimate complaint. Under existing agreements, river traffic is controlled by the Basra Port Authority which is also responsible for pilotage and dredging. The latter is a most expensive operation which must be unceasingly pursued if the river is to remain navigable. All vessels using the river pay fees based on tonnage and draft to the Basra Port Authority to cover the cost of dredging and other services. The fees originally agreed to by Iraq and Iran have been raised by successive surcharges culminating in the present surcharge of one hundred per cent imposed

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	REC'D		OTHER

SUBJECT:

when Iran nationalized its oil industry. At that time, the Basra Port Authority found it necessary to increase the fees to the present level because its income had been enormously curtailed by the abrupt cessation of tanker traffic when the Abadan refinery shut down. The resumption of tanker traffic, however, did not bring a reduction of river fees and the Basra Port Authority has refused to revert to the lower surcharge although almost 900 tankers will call at Abadan this year. On the basis of river traffic and fees tankers paid during the first nine months of this year, consortium officials confidentailly estimate that 875 tankers loading at Abadan in 1958 will pay river dues to the Basra Port Authority totaling 1,750,000 pounds sterling. As a rule of thumb, a 10,000 ton ship of 29 foot draft pays approximately £4,000 in river fees.

Press accounts of the pipeline scheme have referred in vague terms to location of an oil terminal on the gulf, occasionally with some suggestion that the site would be at the southern end of Abadan Island. A terminal in this area would have to be an off-shore one with pipelines extending as far as 20 miles out in the gulf. Although such a project is probably possible from an engineering point of view it would be extremely expensive and the terminal would be exposed to the very high winds of the Persian Gulf which recently did extensive damage to installations on Kharg Island.

A more feasible although perhaps equally expensive proposal, now under consideration by the consortium at the request of NIOC, is to build pipelines for refinery products between Abadan and Khor Musa with a terminal at the bend of the channel some ten miles west of Bandar Shahpour. Both engineering and financial experts in the Abadan refinery have been consulted and have accumulated data for C. J. WRIGHT, consultant to the National Iranian Oil Company, who has been charged with the responsibility of determining the practicability of the scheme. Wright, according to report, considers the Khor Musa location the only one worthy of consideration.

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REF :

For Dept. Use Only	ACTION	DEPT.
	REC'D	INFO OTHER

SUBJECT: Page 3 of Desp. No. 36
From KHORRAMSHAHR

Consortium engineers report that proposals currently under review would require construction of seven pipelines between the Abadan refinery and the Khor Musa terminal. The lines would vary in diameter between 4" and 16" and would extend over a distance of approximately 50 miles. Paralleling the lines would be an all-weather road requiring two bridges over the Bahmanshir river or widening of the present bridge and construction of a second.

The seven lines would carry only refinery products and Bandar Mashour would remain the sole loading port for crude until the completion of the Kharg Island project.

One of the principal complications in the proposal is that the Abadan refinery produces an almost infinite variety of products many of them loaded on tankers in small quantities as demand requires. Extensive storage facilities at the new terminal will therefore be necessary and refinery engineers here believe that this will be uneconomical storage in that for many products the storage requirements will be very small.

The complexity of the problem is indicated by the following list of refinery products which would have to pass through the seven pipelines: 4 grades of aviation gasoline, 5 grades of motor gasoline, 4 grades of kerosene, 3 grades of aviation turbine fuel, 4 grades of special solvent, 7 grades of light diesel fuel, 5 grades of marine and furnace fuel.

It has been explained that each of the seven pipelines would have to carry a variety of products which means that there will be contamination of products as they move through the lines, the degree of contamination depending upon the differences of distillation points of the products that succeed each other through the line. For example, high distillate solvents following diesel fuels through the line will suffer high contamination whereas a high distillate following another produced at almost the same temperature will emerge with little contamination. The degree of contamination will vary directly with the diameter of the pipe. As engineers explain, the "plug" or

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For Dept. Use Only	ACTION	I N F O	DEPT.
	REC'D		OTHER

SUBJECT:

first section of a new product to enter the line is the part of the product which becomes contaminated by the products which preceeded it. It follows that as the diameter of the pipe increases so does the volume of contaminated product rise. These factors necessitate the construction of pipelines as small as those of the uneconomical diameter of 4".

Still another difficulty to be overcome is the wax content of fuel oil produced by the refinery which would require heating of pipelines throughout their entire length probably by a steam line laid next to it. In addition most engineers are convinced that the soft and marshy ground would not support the lines without the construction of a substanial road bed and that it would therefore be advisable to bury the line. This solution would only present the further problem of corrosion of the lines in the salt soil.

In addition, trucks on the all weather road would have to carry daily 6,000 drums of bitumen, 1200 drums of special solvents, 13,000 (180 liter) tins of kerosene, and smaller quantities of other products in drums.

Construction of an all-weather road over the salt-marsh and flats to Khor Musa would be in itself a major undertaking and the road would have a very high maintainence factor.

Reportedly NIOC is speaking in terms of increasing refinery output to 400,000 barrels per day with eventual production reaching 600,000 barrels per day, or double present output. In view of present market conditions it seems unlikely that such a quantity of products could be sold.

One distinct advantage to the scheme is the fact that the Khor Musa is already dredged as far as Bandar Shahpour to a working maximum draft of 38' 6" with 42 feet of water at spring tides.

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DATE

REF :

For Dept. Use Only	ACTION	INFO	DEPT.
	REC'D		OTHER

SUBJECT: Page 6 of Desp. No. 36
From KHORRAMSHAHR

Another significant factor is Iran's dependence on Khorramshahr for the import of most of its dry cargo. Bandar Shahpour now handles only bulk cargo amounting to about 35 per cent of Iranian dry cargo imports. Expansion of Bandar Shahpour to handle all Iranian dry cargo would be an enormous undertaking probably beyond Iranian capacity. Even if it were feasible, the country would continue to depend upon Khorramshahr during the years the expansion of Bandar Shahpour would take. Meanwhile, the cost of dredging the Shatt-al-Arab would continue at the same level and would not decrease as products tankers left the Shatt for the Khor Musa. Of an estimated 1650 ships per year calling at Abadan, Khorramshahr and Basra and paying river dues to the Basra Port Authority, approximately 900 are tankers. If these tankers no longer paid river dues, the Basra Port Authority's income would be reduced by 54.5 per cent, or if IORC's estimate is correct, nearly two million pounds. With the cost of dredging the Shatt remaining the same (and assuming that the dues paid for dredging are actually used for dredging) the 750 dry cargo ships using the river would have to make up the income lost by shifting tankers to the Khor Musa, as they are required to do when the Abadan refinery closed down in 1952. This would mean increasing dues from approximately $4,000 per 10,000 ton ship to $8,000 for the same vessel. Undoubtedly this staggering increase would be passed on to the Iranian consumer.

John M. Bowie
American Consul

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SUBJECT:
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Engineers of the consortium report that no estimates have yet been prepared nor have specifications been drawn up. However, a number of firms have already demonstrated interest in the project without, according to the refinery's Chief of Planning, Engineering and Development, "the remotest idea" of what is involved. This source, when pressed as to an over-all figure, could only guess that the total cost would be in excess of 20 million pounds. Other estimates from reasonably reliable sources run as high as 40 million to 100 million pounds. Until the whole scheme has received further study only guesses of the ultimate cost are possible.

COMMENT:

The proposed pipelines and terminal on the Khor Musa could deprive Iraq of a substantial source of income but so far as this Consulate is aware, NIOC has yet to discover who is going to pay for them. It seems as least open to doubt that tanker companies will be willing to pay for the development of the new port and pipelines. In this connection, a comparison of river dues paid by products tankers calling at Abadan and the dues paid by tankers loading crude at Bandar Mashour is informative. A 14,000 tanker with a draft of 30' proceeding up the Shatt-al-Arab, loading at Abadan and returning to the Gulf pays a dredging fee of 2362 Iraqi dinars plus pilotage fees of 172 dinars, a total of 2534 dinars ($7,095.20). A tanker of the same tonnage and draft loading crude at Bandar Mashour would pay total river and port fees of 60,633 Iranian rials (797.80). It is difficult to understand how products tankers could be expected to pay nearly ten times the river dues for the use of the same channel, particularly since the products would probably be harder to market than the crude.

If the cost of the entire Khor Musa project is 100 million pounds to be amortized over a 20 year period by dues paid by 1800 tankers per year (double the present number calling at Abadan to carry double the present refinery output) each tanker would have to pay $7,777 as its share plus the $800 paid for other dues already in Khor Musa, or a total of $8,577 per vessel per voyage or well over double the river fees now paid by the average tanker loading at Abadan.

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